

Message Text

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ACTION SS-30

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 7301

S E C R E T JIDDA 3006

EXDIS

E.O.: 11652: GDS

TAGS: ENRG, SA

SUBJ: YAMANI AUCTION PROPOSAL

REF : A) STATE 112545; B) JIDDA 2925

1. ARAMCO COULD INCREASE PRODUCTION BY AT LEAST 500,000 BBLS/DAY ALMOST IMMEDIATELY AND BY AN ADDITIONAL 2 MILLION BPD BY THE END OF 1975. THE AMOUNT OF OIL FOR YAMANI'S PROPOSED 2 MILLION BPD AUCTION WHICH WOULD HAVE TO COME OUT OF THE ARAMCO PARENTS' CURRENT LIFTINGS WOULD DEPEND ON THE PERIOD IN WHICH THE AUCTION OIL IS TO BE DELIVERED. IN THE SHORT RUN, AS MUCH AS 1.5 MILLION BPD WOULD COME FROM OIL WHICH THE COMPANIES ARE CURRENTLY SELLING, AND THEY THEMSELVES WOULD HAVE TO ENTER THE AUCTION IN SOME FASHION.

2. YAMANI'S IDEA IS THAT THE FOUR ARAMCO PARENTS WOULD ALSO BID FOR THE OIL (OR BE ALLOCATED THE OIL THROUGH SOME "SPECIAL ARRANEMENT") AND WOULD SUBMIT BIDS SUBSTANTIALLY LOWER THAN 93 PERCENT OF POSTED PRICE; IN FACT, SOMETHING MUCH CLOSER TO THE TAX PAID COST.

3. THE PARENT COMPANIES MUST KNOW BY NOW THAT YAMANI BELIEVES HE HAS A RIGHT TO 60 PERCENT OF THE OIL, AS KUWAIT NOW HAS (REF B); THAT HE COULD, AND VERY LIKELY WILL TAKE WHATEVER OIL HE WANTS. IF DONE BY SAUDI GOVERNMENT DECREE, THE ARAMCO PARENTS WOULD THEN BE FORCED TO BID FOR A SUBSTANTIAL PART OF THEIR REQUIREMENTS

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AND PRICE COULD BE RAISED RATHER THAN DECREASED. ONE OR

EVEN TWO MILLION BARRELS/DAY WOULD BE A SMALL PORTION OF THE SAUDI "RIGHTFUL" SHARE. IF YAMANI IS GOING TO TAKE THE OIL IN ANY CASE, IT WOULD SEEM FAR BETTER FOR THE PARENT COMPANIES TO WORK NOW GRACEFULLY ON THE TERMS UNDER WHICH THEY COULD GET THE OIL BACK DIRECTLY OR THROUGH SOME FORM OF PREFERENTIAL TREATMENT IN THE AUCTION.

4. YAMANI MET YESTERDAY WITH ARAMCO SENIOR STAFF (JUNGERS AND POWERS) AND REPEATED HIS VIEWS ON THE SAUDI RIGHT TO 60 PERCENT OF PRODUCTION. THE ARAMCO OFFICIALS TOLD ME IMMEDIATELY AFTER THE MEETING THAT THEY HAD NO DOUBT YAMANI COULD TAKE THE OIL IF HE WANTED TO, AND, FURTHER, FOLLOWING THE KUWAITI LEAD, HE HAD EVERY RIGHT TO DO SO. (AS THIS HAS POSSIBLY NOT YET BEEN PASSED TO THE PARENT COMPANIES, WHO MAY DISAGREE WITH JUNGERS' AND YAMANI'S INTERPRETATIONS OF THE MOST-FAVORED-NATION AGREEMENT, ARAMCO OPINION SHOULD NOT BE DISCUSSED WITH THE FOUR PARENT COMPANIES.)
AKINS

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